



EUROPEAN CENTRAL BANK

EUROSYSTEM

ECB
DG-MIP
T2/T2S Consolidation Project Team

T2/T2S Consolidation

Central Liquidity Management

Task Force on Future RTGS Services

2nd meeting on 25-26 January 2017

Objective and summary of feedback received

- Main objective is to align and improve the current liquidity management and monitoring tools in T2 and T2S
- Feedback received during the last workshop has shown a wide range of business needs in terms of liquidity management:
 - Local bank with only reserve fulfilment (and potentially monetary policy access)
 - Central source of liquidity for all payments (single account)
 - Dedication of a certain amount of liquidity for specific payment purposes
- In addition, there is an imperative requirement for tools to monitor payment capacity during the day and to manage scarce liquidity

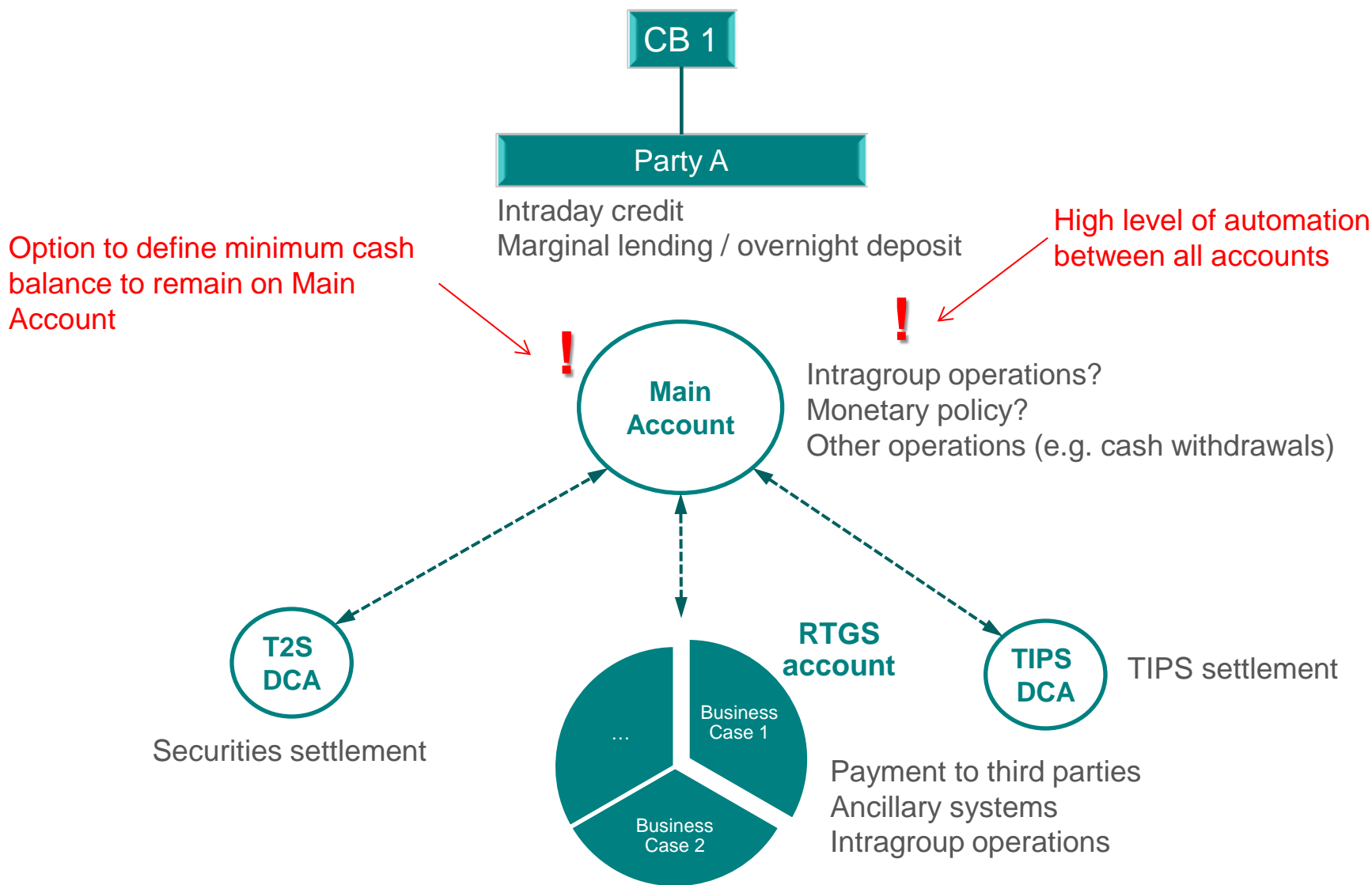
Objective and summary of feedback received

- Additional requests received:
 - Liquidity stemming from the TARGET2 credit line shall be available to fund TIPS settlement
 - Reservation of funds for cash withdrawals
 - Possibility to source liquidity from multiple accounts
 - Some banks do not want to receive payments on their accounts (unpublished in TARGET2 directory)
 - Banks want to have control on the accounts from which they may receive liquidity transfers (not payments)
- Other considerations:
 - Harmonised way of transferring liquidity between different domains (TARGET2, T2S, TIPS)
 - Different operational times for different services

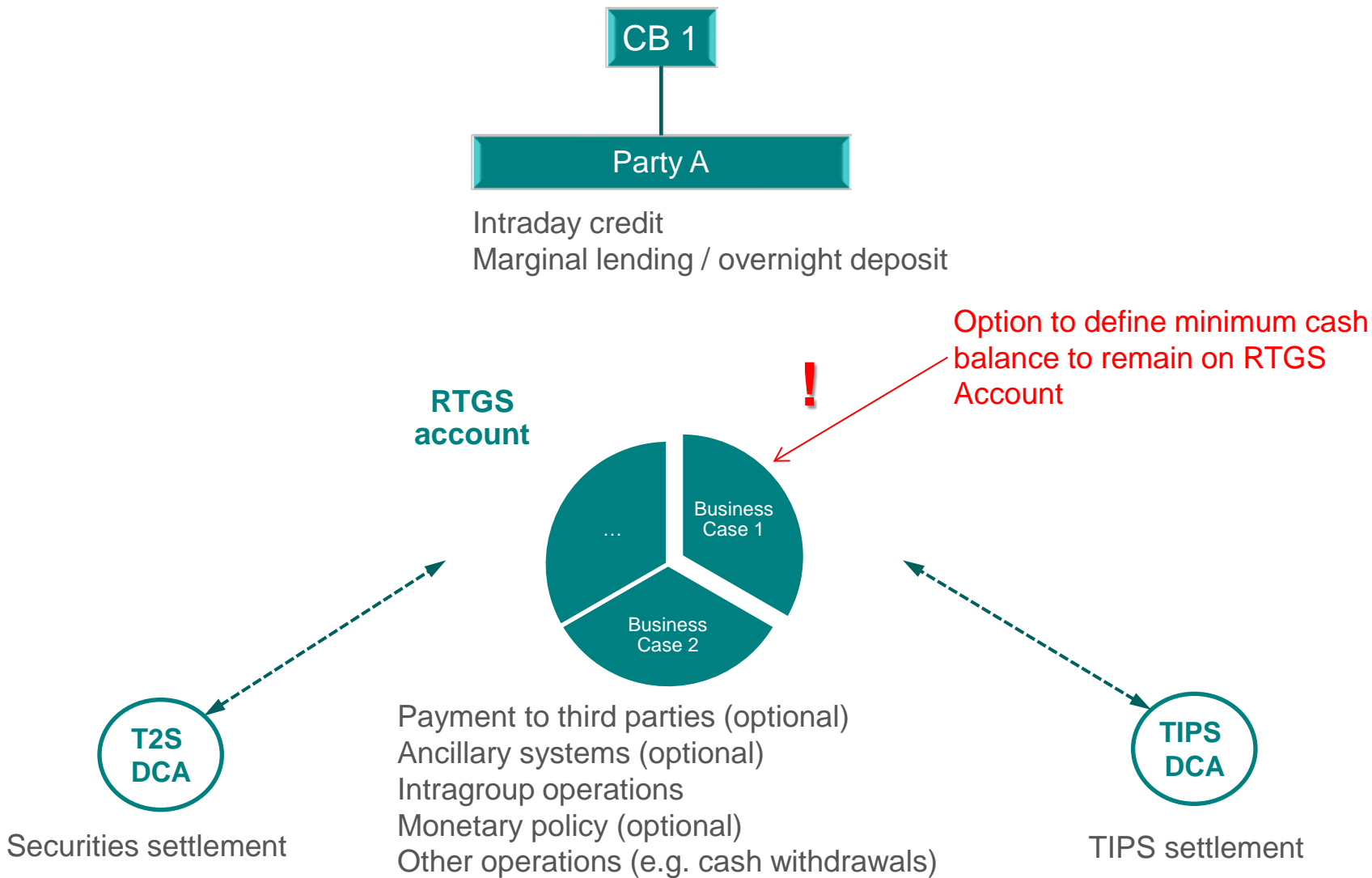
Analytical Approach

- Considering the wide range of business needs, two alternatives have been developed
- The present proposal is illustrated by the following scenarios:
 - Scenario 1: Local bank having to fulfill minimum reserves and no payments
 - Scenario 2: Local bank having all types of payment activities
 - Scenario 3: Local bank wishing to allocate certain amounts of liquidity for specific payment purposes
 - Scenario 4: Multinational bank with various branches
 - Scenario 5: Multinational bank with various entities
 - Scenario 6: Group of banks with one entity managing RTGS payments

Alternative 1



Alternative 2



Common characteristics of Alternative 1 and 2

Common characteristics of Alternative 1 and 2

Credit line and marginal lending are managed centrally

Payments and Ancillary System transactions are performed on the RTGS account

High level of automation

Comparison of Alternative 1 and 2

Alternative 1	Alternative 2
Main Account allows liquidity to be managed centrally	Liquidity is directly allocated to each of the settlement services
Main Account includes balances being visible for treasury function	All transfers between the DCA are technically performed via a technical account
Option to manage the Main Account including defining a minimum cash balance on the Main Account	Option to define a minimum cash balance on the RTGS account, not on the technical account
Option to perform other operations, e.g. cash withdrawals managed on the separate Main Account	RTGS operations and other operations are all performed on the RTGS account

Business Case: Intraday Credit line

Alternative 1	Alternative 2
Option to use rules for the completely automated usage/allocation of the credit line to the settlement services; otherwise credit line is provided on the Main Account	Rules for the completely automated usage/allocation of the credit line to the settlement services

Comparison between the two alternatives

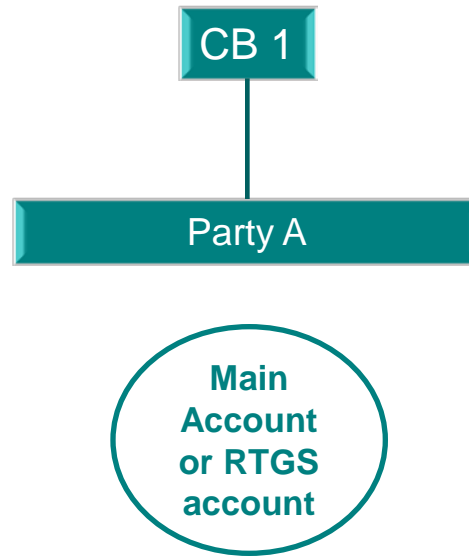
	Alternative 1	Alternative 2
Credit Line	Main Account, option to route	Routed to services
CB operations (HU)	Main Account	RTGS*
Reservations for specific purposes (cash withdrawals...)	Main Account	RTGS*
ML/OD	Main Account	Routed to RTGS
Intragroup operations	Main Account or RTGS account	RTGS
Reservations for U	RTGS	RTGS
Payments (U/N)	RTGS	RTGS
Reservations for each AS	RTGS	RTGS
AS / CLS transactions (HU)	RTGS	RTGS

All in all, automation is optional for alternative 1, but mandatory for alternative 2.

* *RTGS account without payments/AS transactions*

Scenario 1

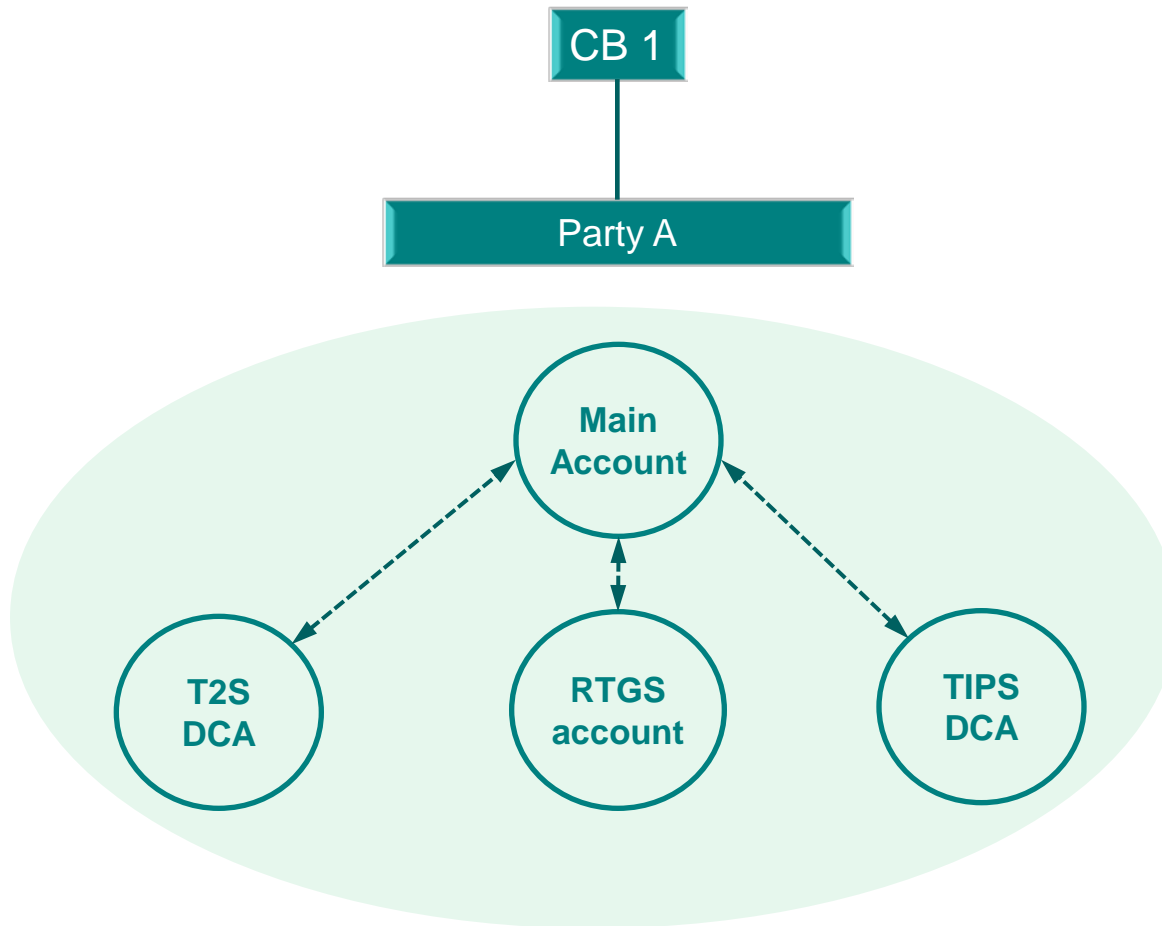
Local bank having to fulfil minimum reserves and no payments



Party A account opened in the books of CB1

Scenario 2 Alternative 1

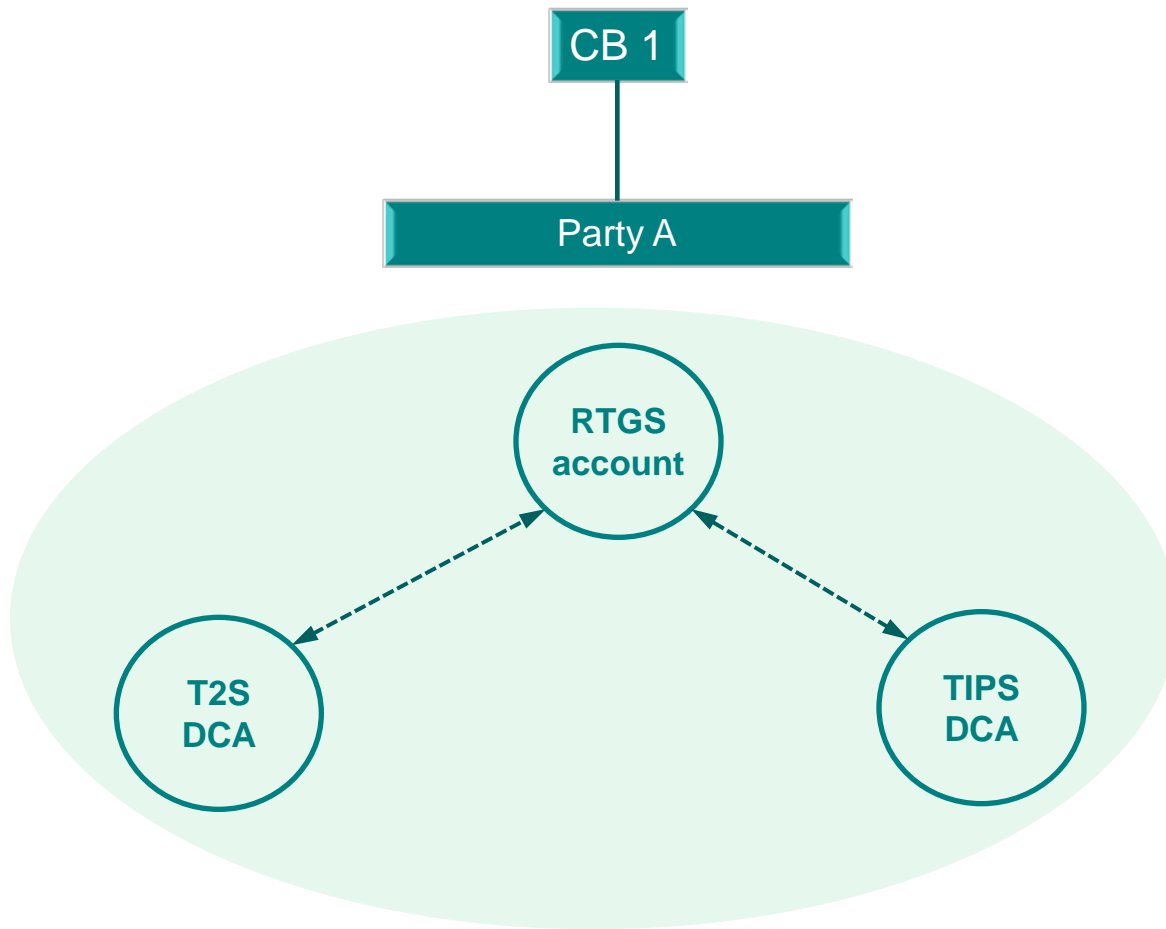
Local bank having all types of payment activities



Party A accounts opened in the books of CB1

Scenario 2 Alternative 2

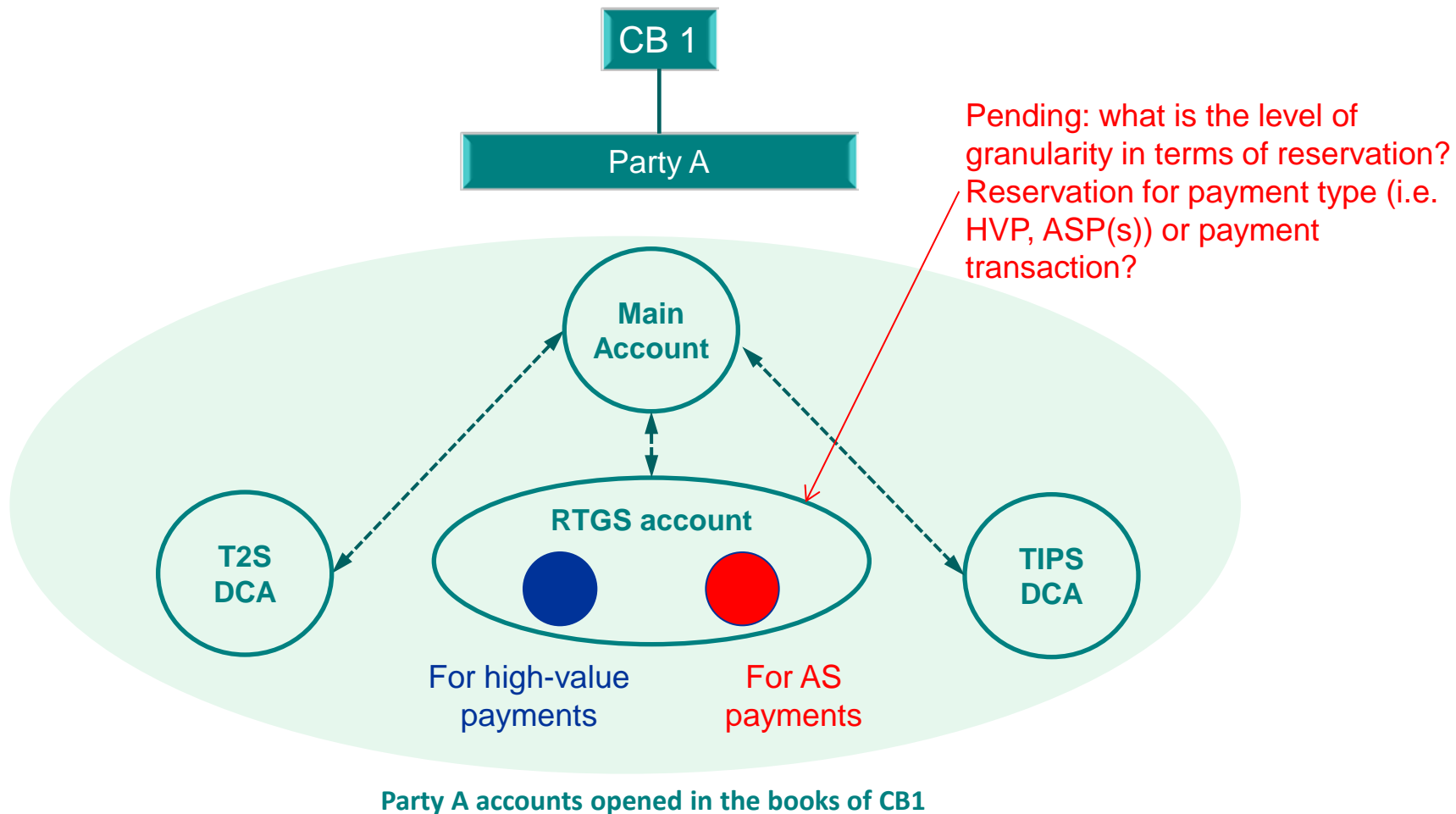
Local bank having all types of payment activities



Party A accounts opened in the books of CB1

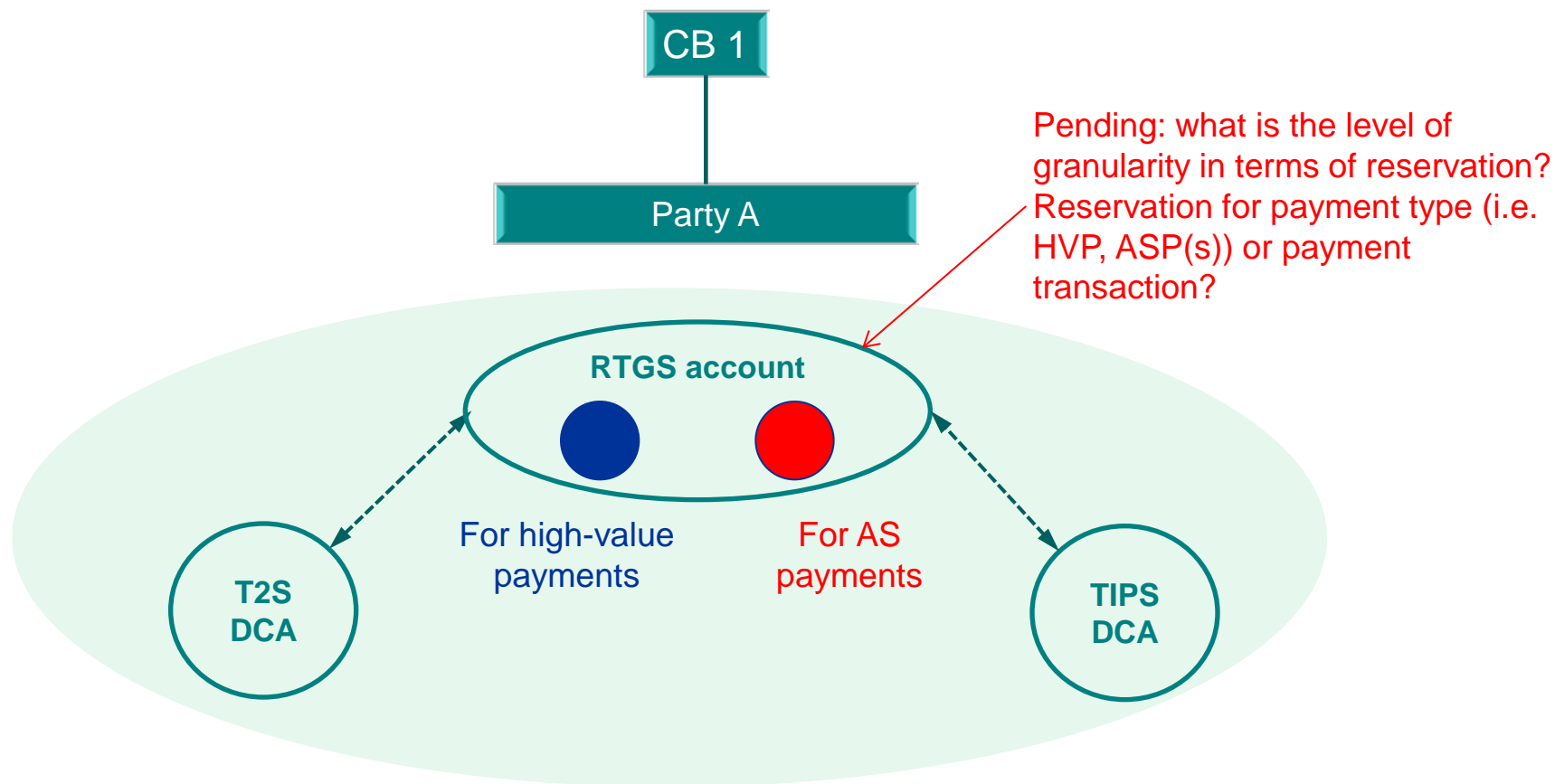
Scenario 3 Alternative 1

Local bank wishing to allocate certain amounts of liquidity for specific payment purposes



Scenario 3 Alternative 2

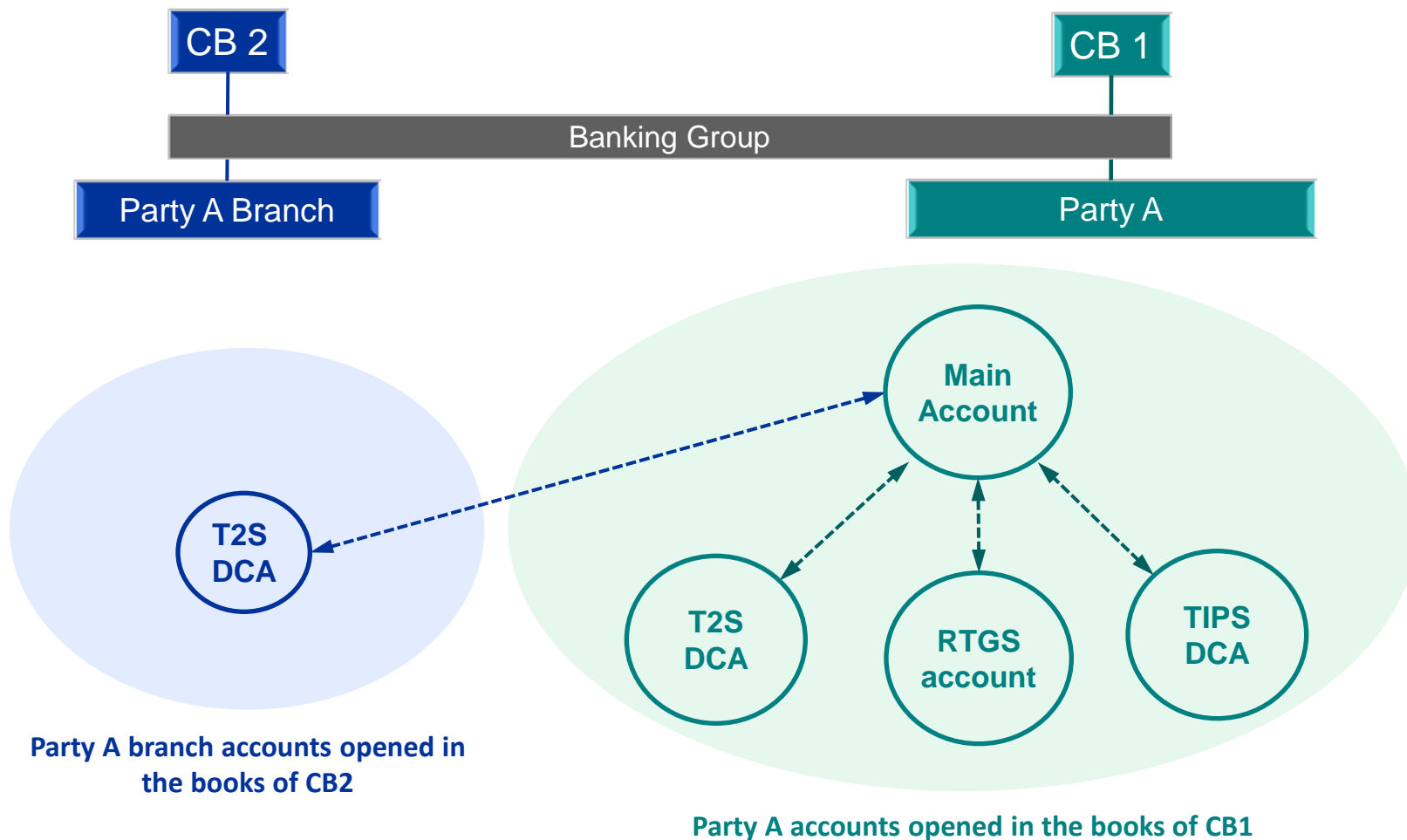
Local bank wishing to allocate certain amounts of liquidity for specific payment purposes



Party A accounts opened in the books of CB1

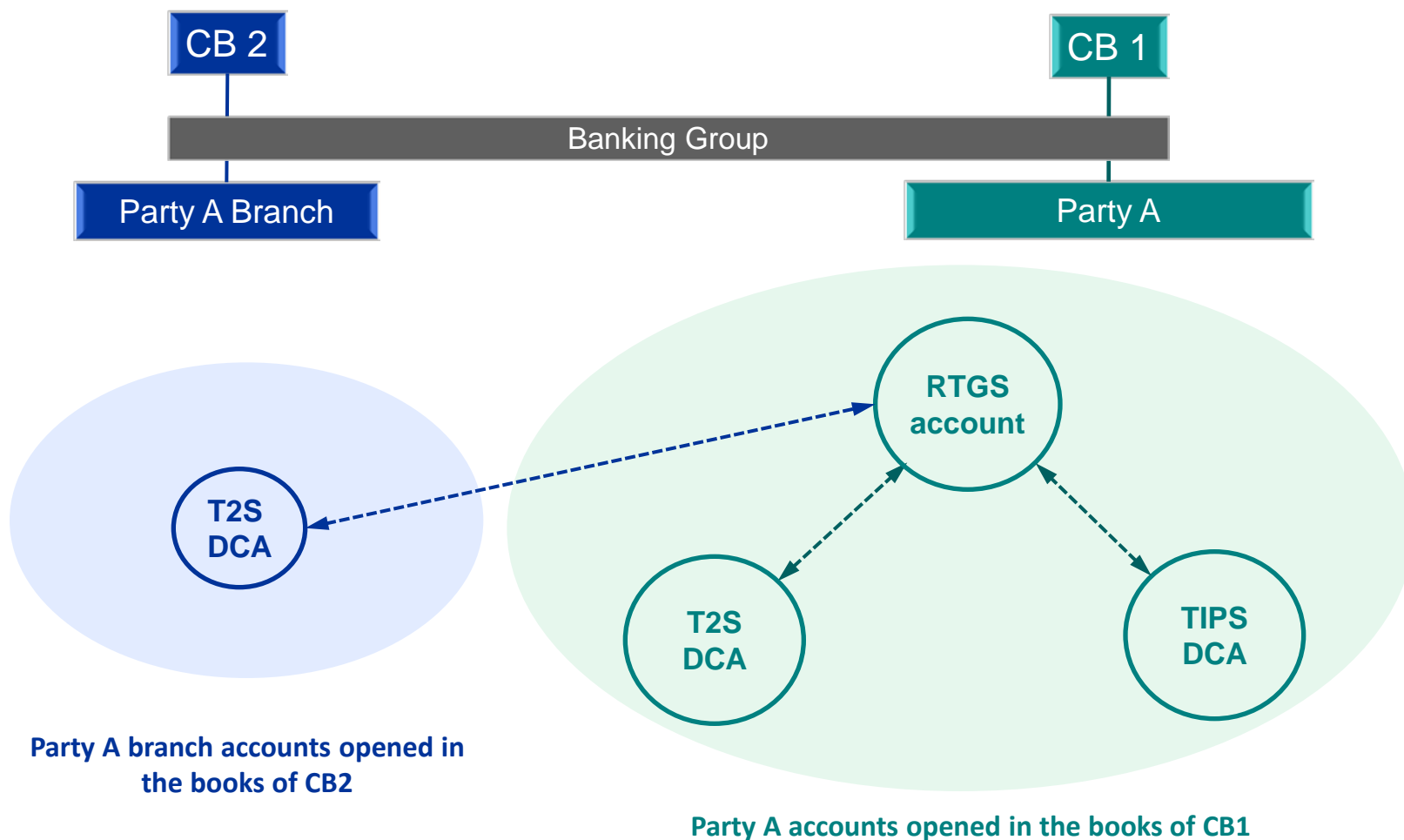
Scenario 4 Alternative 1

Multinational bank with various branches



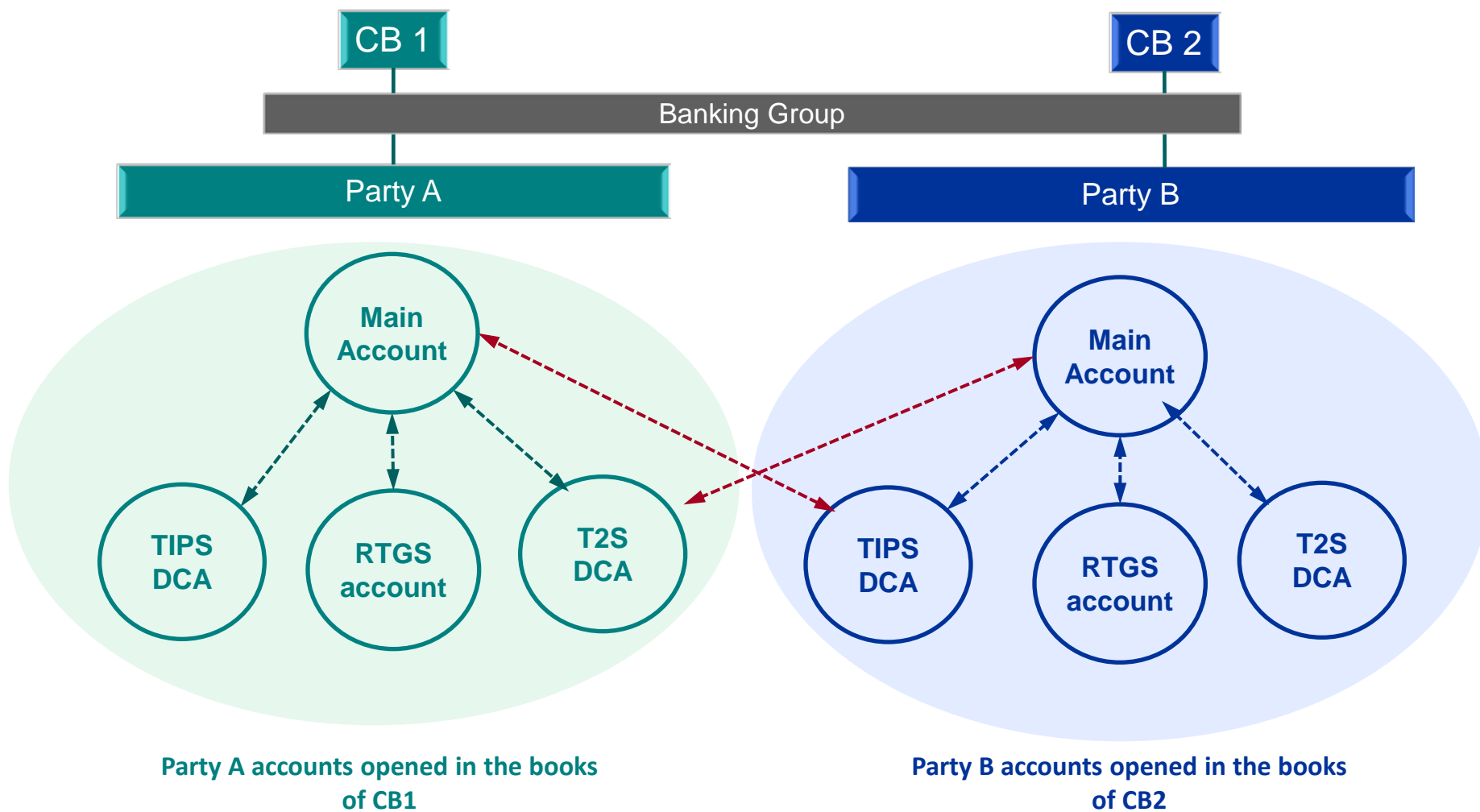
Scenario 4 Alternative 2

Multinational bank with various branches



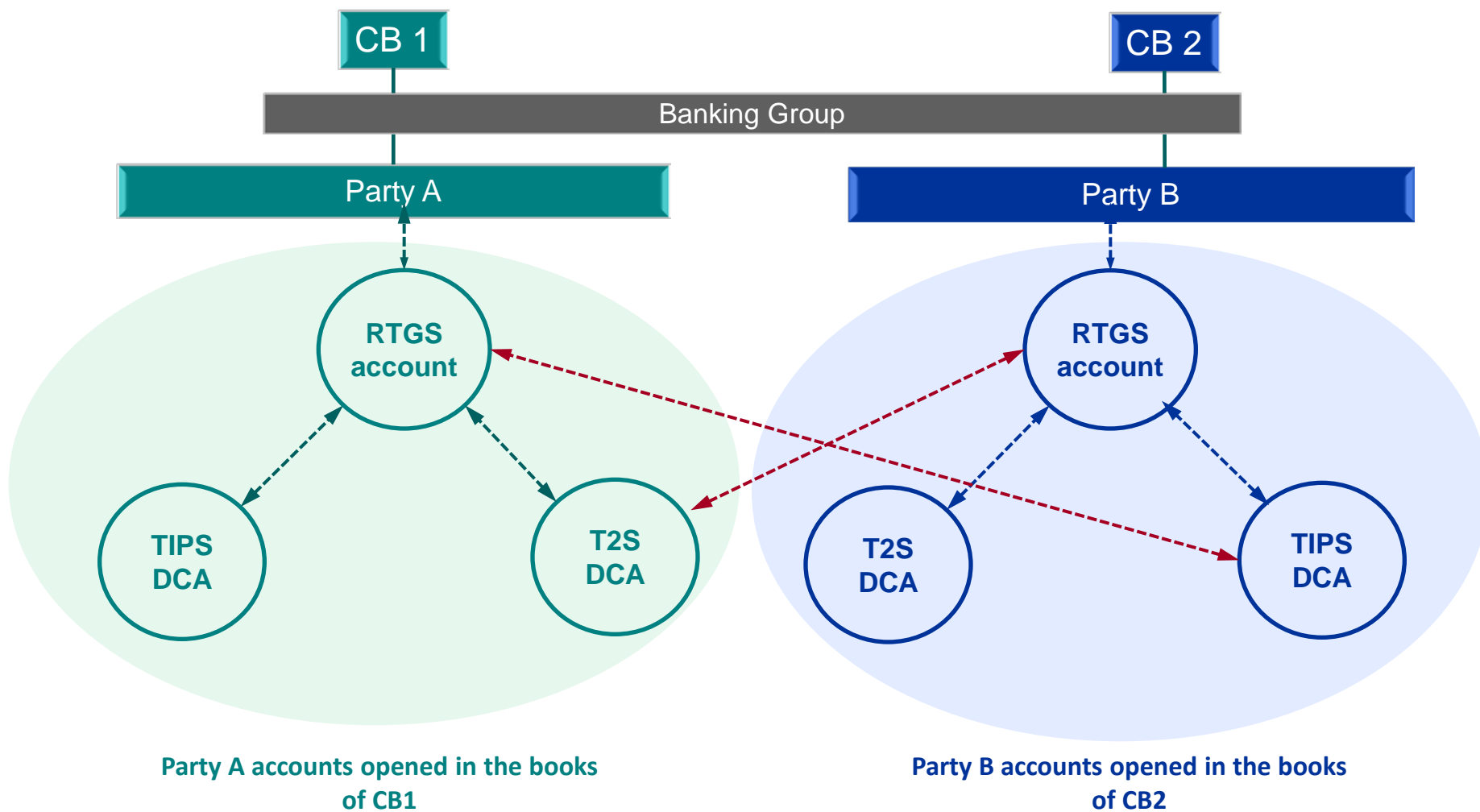
Scenario 5 Alternative 1

Multinational bank with various entities



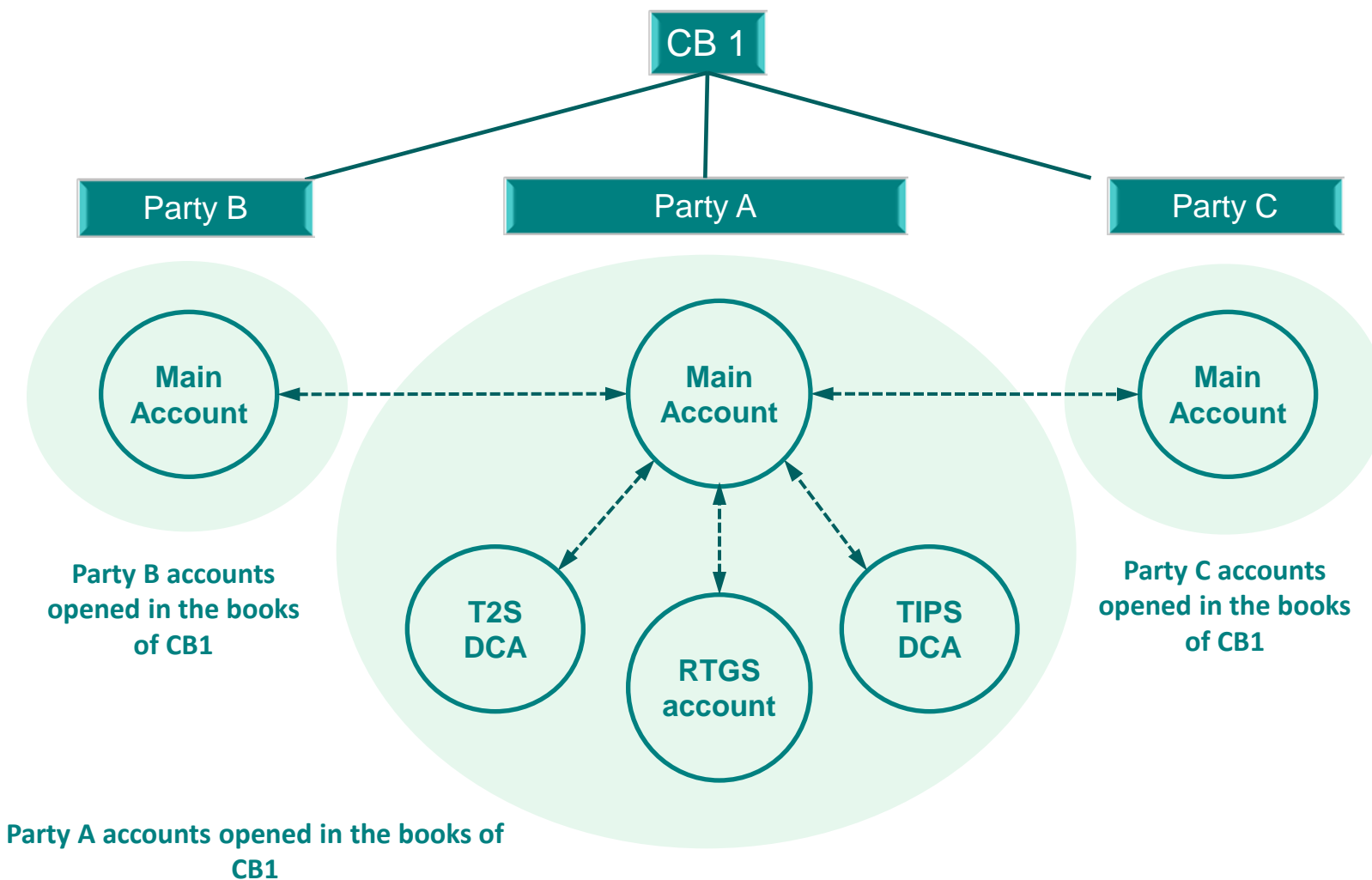
Scenario 5 Alternative 2

Multinational bank with various entities



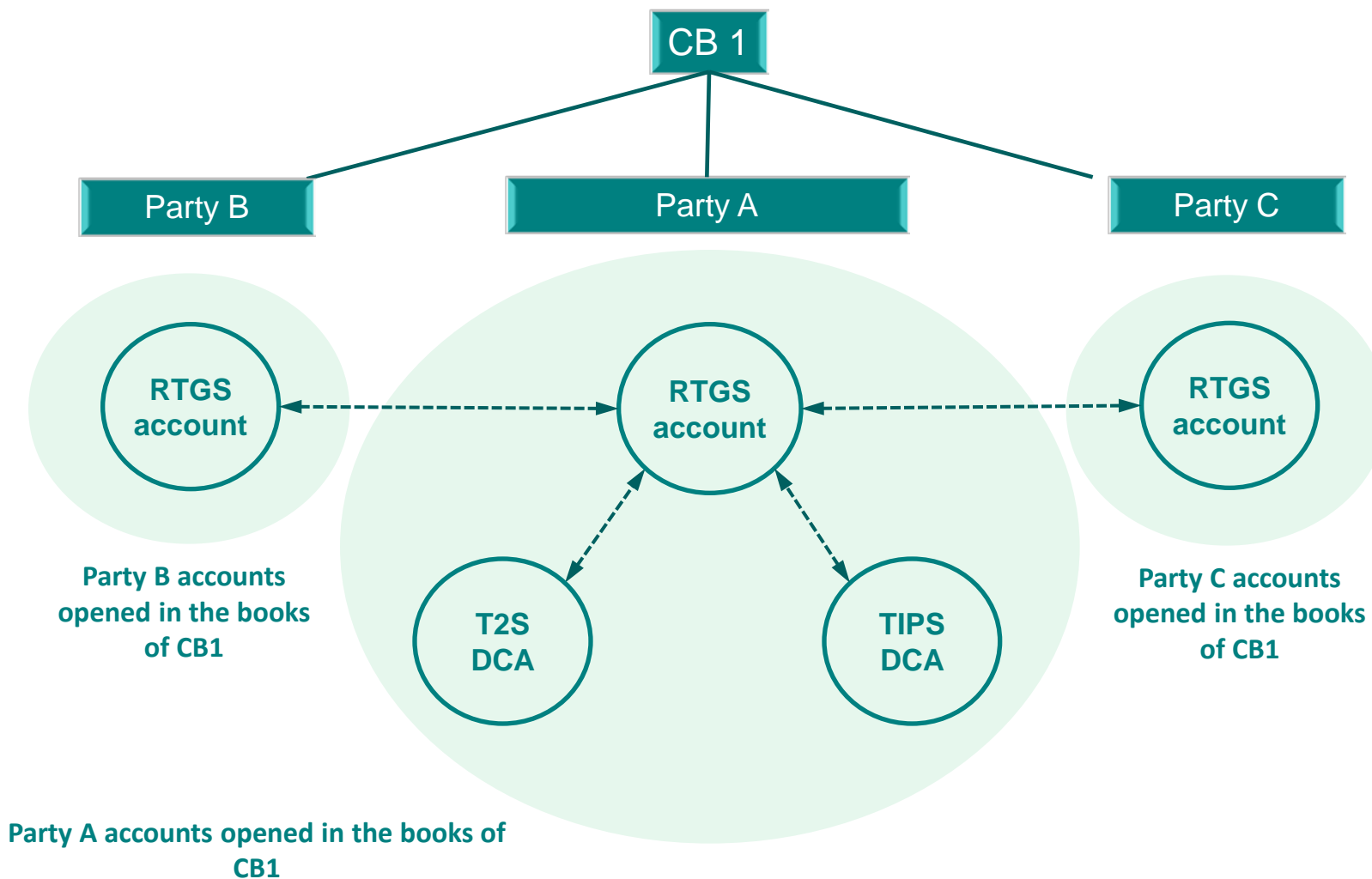
Scenario 6 Alternative 1

Group of banks with one entity managing RTGS payments



Scenario 6 Alternative 2

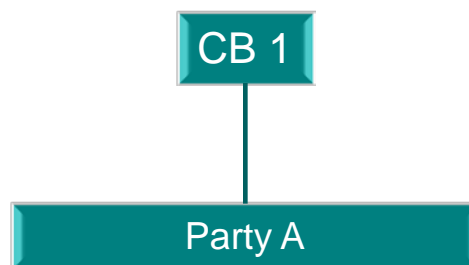
Group of banks with one entity managing RTGS payments



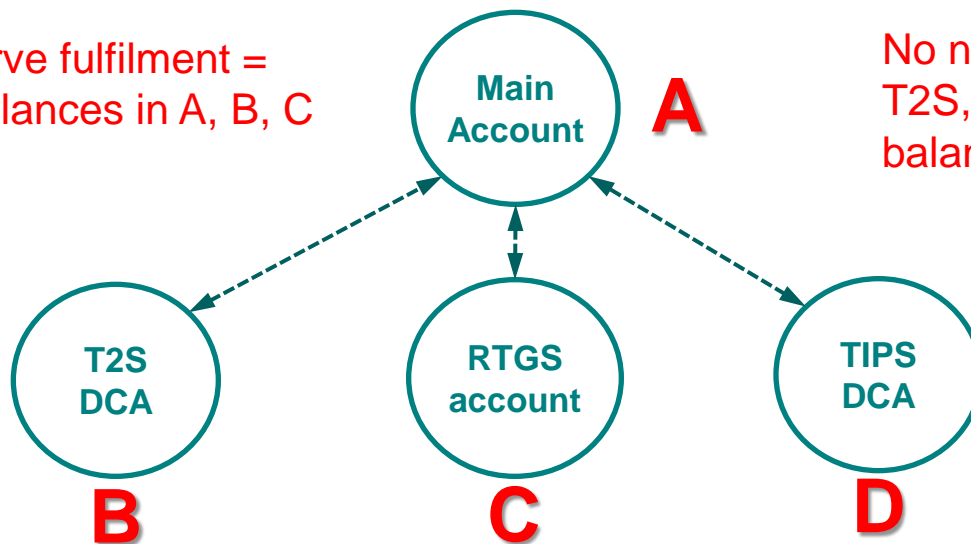
Level of automation of movements between accounts

- Level of automation of movements between accounts shall allow almost fully automatic provisioning of liquidity between them
- Objectives
 - Manage liquidity shortage (and surplus)
 - Simplify liquidity management
- Questions:
 - Level of automation?
 - Trigger when there is a lack of liquidity? Or when the minimum/maximum cash balance is reached?
 - Cash amount to be transferred?
 - Optionality?

Minimum Reserve fulfilment



Minimum Reserve fulfilment =
Sum of cash balances in A, B, C
and D

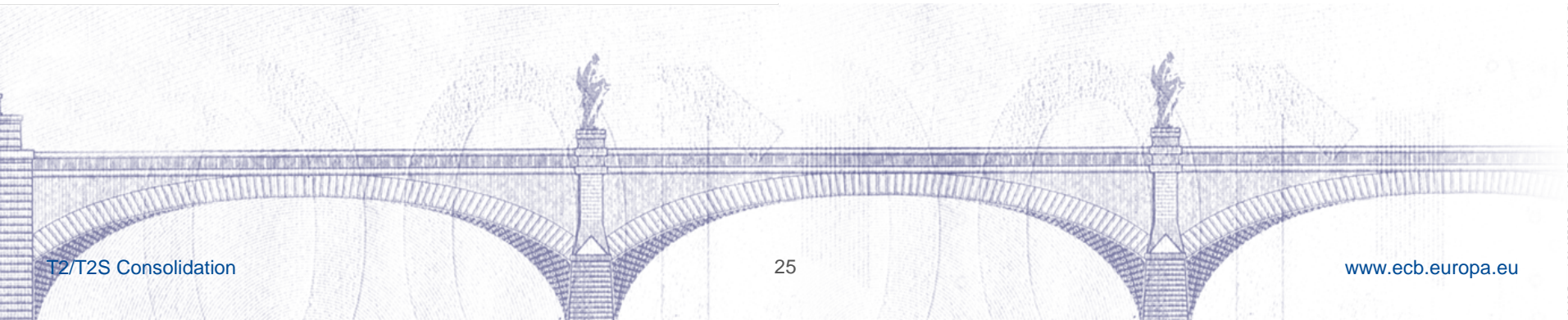


No necessity to sweep the
T2S, TIPS and RTGS cash
balances at the end of the day

Centralised view

- User-friendly human interface to view:
 - Cash balances in all accounts across CBs
 - Credit line
 - Liquidity adjustments between accounts
- Triggering of alerts when minimum/maximum limits on account balances are reached?
- Input of liquidity transfers?

Annex



Central liquidity management proposal presented during last workshop

